



# CITY OF SANTA BARBARA

## FINANCE COMMITTEE AGENDA REPORT

**AGENDA DATE:** March 22, 2011  
**TO:** Finance Committee  
**FROM:** Administration Division, Finance Department  
**SUBJECT:** Review Of Solid Waste Budget

### RECOMMENDATION:

That the Finance Committee hear a report from staff on the financial status of the Solid Waste Fund and proposed rate adjustments for Fiscal Year 2012.

### EXECUTIVE SUMMARY:

In the last few years, the finances of the Solid Waste Fund have been significantly impacted by a number of converging factors, including: (1) the shift of franchise fees from the Solid Waste Fund to the General Fund beginning in Fiscal Year 2011; (2) a sharp decline in revenues from the sale of recyclables; and (3) a decline in revenues in the commercial sector caused by various factors, including a new rate structure and a general decline in the economy. In total, these three factors resulted in a \$1.1 million loss of revenues in just two years.

There are also cost increases adding to the problem. In particular, the City will be required to pay an estimated \$150,000 per year to maintain the gas collection system scheduled for implementation at the closed landfill at Elings Park this spring. The cost to install the system is estimated at \$920,000, of which \$400,000 is being funded from a State grant.

Staff has implemented cost savings measures, including staff reductions and other position changes that will save \$245,000 next year. However, an outstanding deficit of approximately \$600,000 still remains.

In order to cure the structural deficit, an across the board increase to rates of 3.37% is needed. This rate increase would be in addition to the increases to rates that are contractually mandated to cover increasing costs of waste collection and disposal services provided by two City's franchised haulers. The overall rate increase required by the franchise agreements is 2.72%.

Proposition 218 noticing of these increases was recently released. Staff felt it would be beneficial to present the rationale for the additional 3.37% increase to the Sustainability Committee and the Finance Committee, and discuss any related questions or concerns, early in the process. The changes were presented to the Sustainability Committee on March 15, 2011.

## DISCUSSION:

The Solid Waste Fund accounts for activities associated with the collection and disposal of refuse and the implementation of programs designed to increase diversion of waste from the County's landfill. The diversion programs stem from not only State mandated diversion requirements, but also the limited permitted capacity of Tajiguas Landfill, which is expected to be reached within the next 15 years unless alternative solutions to waste disposal are implemented. As an enterprise fund, the costs of the services are funded primarily from direct charges to customers via the consolidated utility bills.

Over the last two years, the finances of the City's Solid Waste Fund have been negatively impacted by several factors, resulting in projected deficit for the next several years if no corrective action is taken. These factors include, but are not limited to, the following:

- **Loss of Franchise Fees** – Late last year, the City Council approved a shift of revenues from solid waste franchise fees from the Solid Waste Fund to the General Fund, effective July 1, 2011. Because of the timing of this decision, staff did not have the opportunity to adjust rates to make up for the revenue loss, which totals over \$400,000 annually. Moreover, Council directed that the Solid Waste Fund repay prior years receipts of franchise fees at \$50,000 per year.
- **Decline in Recycling Revenues** – Starting in Fiscal Year 2010, the value of mixed recyclables (aluminum cans, glass, cardboard, plastic bottles, etc.) declined sharply due to the dramatic decline in the national and international economies. Consequently, the revenues generated from the sale of mixed recyclables collected in carts in cans within the City declined as well beginning in Fiscal Year 2011. The table below shows the change in revenues from recycling revenues since its inception in Fiscal Year 2009:

Fiscal Year 2009	\$ 535,864
Fiscal Year 2010	871,649
Fiscal Year 2011	(37,000)
Fiscal Year 2012 (Est.)	170,000

As shown above, between last fiscal year and this fiscal year the Solid Waste Fund will have lost \$908,649 in this revenue account alone due to the impacts of the economic downturn on the value of mixed recyclables.

- **Decline in Commercial Sector Revenues** – Since the City began tracking revenues by sector in January 2009, there has been a consistent decline in revenues generated in the commercial sector through the current date. Specifically, in the month of January 2009, the commercial sector generated approximately \$705,000 in gross revenues. In January 2011, the commercial sector generated \$615,499, a decline of \$89,501. On an annualized basis, this represents a decline of over \$1.1 million.

The decline appears to be the result of several factors, including the economic downturn, the rate changes implemented in the commercial sector in November 2009 that enable businesses to lower their overall refuse charges, and a downsizing of trash containers in response to surplus capacity. It is too difficult at this point to precisely determine the relative impacts of each of these factors on revenues. Ultimately, it will be very important to understand to what extent these actually affected revenues since the City is not obligated to mitigate any losses to revenues caused by economic factors or changes to service levels initiated by customers; however, this City is obligated to mitigate any revenue losses to the haulers solely as a result of the changes to rates implemented in the commercial sector.

When the City implemented the new rates in the commercial sector in November 2009, the City began paying the haulers a fixed amount for services provided in the commercial sector based on revenues generated in the year preceding the implementation date. As a result of the declines, there is currently a gap between the revenues being collected and the fixed payments to the haulers of \$48,459 per month. This equates to an annual gap of \$581,506. In order to offset this current gap, both haulers have agreed to a reduction in their fixed payments by a combined total of \$300,693, leaving a remaining gap of \$280,813.

City staff and the haulers have agreed to analyze the data through the summer and fall and determine more precisely the relative impacts of the various factors affecting revenues. With this information, the City can take appropriate action to resolve the remaining difference between the revenues being collected and the payments to the haulers for services provided in the commercial sector.

The overall impact of the factors described above has resulted in a projected decline in revenues by almost \$1.3 million from July 1, 2009 through June 30, 2011, as shown in the table below.

	<b>FY 2009 Actual Revenues</b>	<b>FY 2011 Projected Revenues</b>	<b>Net Change</b>
Franchise Fees	\$ 419,343	\$ -	\$ ( 419,343)
Gap in Commercial Sector	-	(280,813)	( 280,813)
Recycling Revenues	535,864	(37,000)	( 572,864)
Totals	<u>\$ 955,207</u>	<u>\$ (317,813)</u>	<u>\$ (1,273,020)</u>

## **Other Financial Impacts**

In addition to the revenue losses previously discussed, certain costs have increased that are outside the control of the City. For example, the City has recently been mandated to construct a methane gas collection system at the closed City landfill located on the site where Elings Park currently resides. The cost of the system is over \$900,000, with \$401,000 to be funded from a State grant. In addition, the City's Solid Waste Fund will be responsible for the maintenance of the system at a cost estimated at \$150,000 per year.

## **Closing the Budget Gap**

Staff has looked for ways to reduce costs where possible and practicable in order to offset both revenue losses and cost increases. For example, staffing levels have been reduced over the last year through a reorganization completed this year, which will result in the elimination of two full-time equivalent positions starting in Fiscal Year 2012. This is a 19% reduction in budgeted staffing and will reduce salary and benefit costs by approximately \$250,000. In addition, a number of other discretionary line-items have been trimmed substantially.

As noted above, City staff and the City's haulers, Allied Waste and MarBorg Industries, have agreed to further analyze the underlying data this fall to hopefully better determine the impacts on revenues in the commercial sector of each of the relevant factors, as previously discussed. However, in the interim, both haulers have agreed to reduce the agreed-upon guaranteed payments in the business sector by a total of \$300,000 in Fiscal Year 2012.

In Fiscal Year 2012, revenues from recyclables will increase to an estimated \$170,000. This is a \$200,000 swing from the current year, which will help offset some of the revenue losses already discussed. The increase is consistent with the more recent upward trend in the market for recyclable materials. It is unlikely that revenues from recyclables will return to pre-recession levels in the near future; however, it is possible that revenues exceed \$300,000 in the next few years.

## **Impacts on Refuse Rates**

Under the terms of the franchise agreements with Allied Waste and MarBorg, the City is required to increase their payments each year to cover costs increases. The first increase relates to the cost of collections, which has been determined to represent 65% of the haulers' total costs. As such, payments to the haulers are adjusted by 65% of the Consumer Price Index each year. The second adjustment is to cover any increased tipping fees imposed by the County for disposal of trash at Tajiguas Landfill. For Fiscal Year 20112, tipping fees are going up by \$4.75 per ton disposed. In total, the contractually obligated increases translate into a 2.72% across the board rate increase.

In addition to the required increases to rates described in the previous paragraph, rates will need to be raised by 3.37% in order to bring the Solid Waste back into balance for Fiscal Year 2012.

The total increases to the rates for Fiscal Year are summarized below.

<b>Contractually Obligated Rate Increases</b>	
Increase to Collection Costs (65% x 1.95 CPI)	1.27%
Increase to Tipping Fees (\$4.75 per ton)	<u>1.45%</u>
Sub-Total	2.72%
<b>Rate Increase Needed to Address Projected Deficit</b>	<u>3.37%</u>
<b>Total Proposed Rate Increase</b>	<b><u>6.09%</u></b>

### Impact to Typical Rate Payer

A comparison of monthly billings to typical customers based on the current rates versus proposed rates is presented below.

Service Level	Current Rates	Proposed Rates	\$ Change
<b>Basic Residential Service</b> (32-gal trash, 32-gal greenwaste, up to 96-gal recycle)	\$26.83	\$28.46	+\$1.63
<b>Minimum Multi-Unit Residential (3 cans or less)</b> (3-32 gal trash/ + up to 96-gal greenwaste, up to 96-gal recycle)	\$34.30	\$36.39	+\$2.09
<b>Multi-Unit Residential (4 cans)</b> (4-32 gal trash/week+ up to 96-gal greenwaste, up to 96-gal recycle)	\$37.36	\$39.64	+\$2.28
<b>Sample Small Business Cart/Can Service</b> (96-gal trash/week, up to 96-gal greenwaste, up to 96-gal recycle)	\$58.80	\$62.38	+\$3.58
<b>Sample Business Dumpster Service</b> (4yd trash/week, 4yd recycle/week)	\$329.61	\$349.67	+\$20.06

It is important to note that the impacts to monthly bills can be mitigated in most cases through increased diversion and adjusting service levels accordingly to realize a savings in trash bills.

**PREPARED BY:** Robert Samario, Finance Director

**SUBMITTED BY:** Robert Samario, Finance Director

**APPROVED BY:** City Administrator's Office